



# WellPoint



FOCUSED ON MEETING CUSTOMER NEEDS

## FINANCIAL HIGHLIGHTS

Year Ended December 31,	1998	1997	1996	1995	1994
(In thousands, except per share data and membership data)					
<b>Consolidated Operating Results <sup>(A)</sup></b>					
Revenues	\$6,478,350	\$5,642,238	\$3,970,832	\$2,958,824	\$2,692,812
Income from continuing operations	319,548	229,437	198,518	174,755	202,259
Net Income	231,280	227,409	202,002	179,989	213,170
<b>Per Share Data <sup>(B),(C)</sup>:</b>					
<b>Income from continuing operations</b>					
Earnings per share	\$4.63 <sup>(D)</sup>	\$3.33 <sup>(E)</sup>	\$2.99	\$2.63 <sup>(E)</sup>	\$3.05
Earnings per share assuming full dilution	\$4.55 <sup>(D)</sup>	\$3.30 <sup>(E)</sup>	\$2.99	\$2.63 <sup>(E)</sup>	\$3.05
<b>Net Income</b>					
Earnings per share	\$3.35 <sup>(D)</sup>	\$3.30 <sup>(E)</sup>	\$3.04	\$2.71 <sup>(E)</sup>	\$3.21
Earnings per share assuming full dilution	\$3.29 <sup>(D)</sup>	\$3.27 <sup>(E)</sup>	\$3.04	\$2.71 <sup>(E)</sup>	\$3.21
<b>Consolidated Financial Position <sup>(A)</sup></b>					
Total Assets	\$4,225,834	\$4,234,124	\$3,149,378	\$2,471,360	\$2,185,950
Total Liabilities	2,910,611	3,010,955	2,278,919	801,134	767,031
Total Stockholders' Equity	1,315,223	1,223,169	870,459	1,670,226	1,418,919
<b>Membership</b>					
Medical	6,892,000	6,638,000	4,485,000	2,797,000	2,617,000
Pharmacy	15,003,000	12,290,000	11,517,000	9,883,000	6,501,000
Dental	3,149,000	3,183,000	1,559,000	538,000	468,000
Utilization Management	2,908,000	2,751,000	—	—	—
Life	2,156,000	1,758,000	723,000	327,000	324,000
Disability	779,000	1,126,000	107,000	—	—
Behavioral Health	744,000	721,000	502,000	382,000	311,000

A. Prior year financial information has been restated to include the workers' compensation business as a discontinued operation.

B. Per share data for periods prior to 1997 has been restated to reflect the adoption of SFAS No.128.

C. Per share data for all periods prior to 1996 has been recomputed using 66,366,500 shares, the number of shares outstanding immediately following completion of the Company's May 1996 Recapitalization. Per share data for the year ended December 31, 1996 has been calculated using the number of shares outstanding immediately following the Recapitalization, plus the weighted average number of shares issued since the Recapitalization.

D. Per share data for 1998 includes a charge of \$0.42 per basic and diluted share related to the Company's investment in FPA Medical Management, Inc. and income of \$1.24 per basic and \$1.22 per diluted share related to the Company's favorable IRS ruling regarding the deductibility of a cash payment made by the Company's former parent company at the time of its May 20, 1996 Recapitalization.

E. Per share data includes nonrecurring costs of \$0.13 per share and \$0.52 per share for 1997 and 1995, respectively.

WellPoint Health Networks Inc. is one of the nation's largest publicly traded managed care companies. The Company serves the health care needs of approximately 6.9 million medical and approximately 25 million specialty members nationally through the Blue Cross of California and UNICARE brand names.

WellPoint offers a broad spectrum of quality network-based health plans, including HMOs, PPOs, POS, hybrid and specialty managed care products. WellPoint has more than 10,000 employees and its corporate headquarters is located in Thousand Oaks, California. The Company's common stock is traded on the New York Stock Exchange under the symbol WLP.

Supplemental condensed consolidated financial statements are included in the annual report. The complete financial statements and related notes have been mailed to all stockholders with the proxy materials related to the 1999 Annual Meeting of Stockholders to be held May 11, 1999. A copy of WellPoint's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained free of charge from the Investor Relations Department at WellPoint's corporate headquarters.

WellPoint's

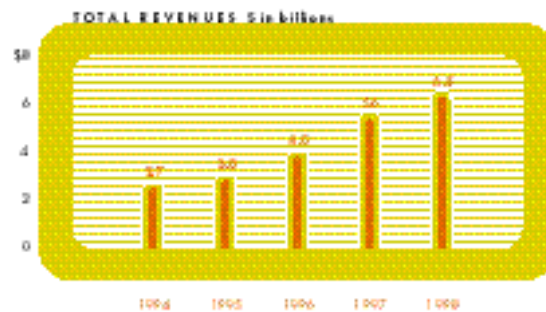
## VISION

WellPoint will redefine our industry through a new generation of consumer-friendly products that put individuals back in control of their health and financial future.

WellPoint's

## MISSION

The WellPoint Companies provide health security by offering a choice of quality branded health and related financial services designed to meet the changing expectations of individuals, families and their sponsors throughout a lifelong relationship.



Letter to

## STOCKHOLDERS

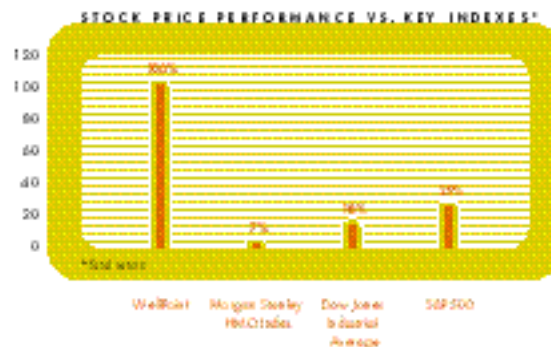
WellPoint's vision and mission statements included in this annual report are prominently displayed in every executive office and conference room at WellPoint for a very good reason. The statements reflect our focus on meeting customer needs as the best way of enhancing shareholder value.

We offer broad product choices with attributes that help our members decide for themselves how best to finance health care needs at various stages of their lives. This notion of choice is especially important in today's market economy. As the Information Age expands through new tools such as the Internet, consumers are more knowledgeable and more empowered than ever. When it comes to gaining control of their health, individuals want the flexibility to meet medical needs as they see fit.

In this environment, offering our customers a variety of quality options to choose from provides what they value most.

By consistently providing value to our customers through innovative and extensive product offerings and responsive customer service, we continue to grow profitably.

Importantly for you, the owners of our company, this growth translates over time into higher shareholder value. We are proud that WellPoint's focused approach is being recognized by investors as our common stock appreciated 106 percent in 1998, significantly more than any other major company in the managed care industry.



We also completed the largest public stock offering in the history of our industry during April 1998, helping our largest stockholder, the California HealthCare Foundation, to sell 12 million WellPoint shares valued at \$864 million. This offering significantly increased our public float, the number of freely tradable shares of WellPoint Common Stock, to 52.7 million shares.

#### OUTSTANDING PERFORMANCE

A key reason for the growth in our stock price was WellPoint's continued focus on profitable growth in 1998 following a good year in 1997. Top-line growth was strong, costs were stable and significant cash flow was generated.



The popularity of our products helped us add a significant number of new medical members through internal growth. This strong member growth fueled WellPoint's operating revenue growth, which increased 17 percent to \$6.4 billion in 1998 compared with \$5.4 billion in 1997.

We also focused our spending during the year on programs to enhance service for our members, improve efficiency and comply with Year 2000 information system requirements. WellPoint's medical loss ratio, the percentage of total premiums spent

on health care services, was essentially the same in 1998 compared with 1997. One reason that costs were stable was our proactive effort to help members with significant medical care needs achieve quality outcomes at an affordable spending level. The medical loss ratio was also helped by premium increases and new proprietary provider networks we created in our UNICARE business outside California.

Three-quarters of our 6.9 million medical members are in open-access plans without a gatekeeper—members exercise considerable freedom of choice in their health care decisions.

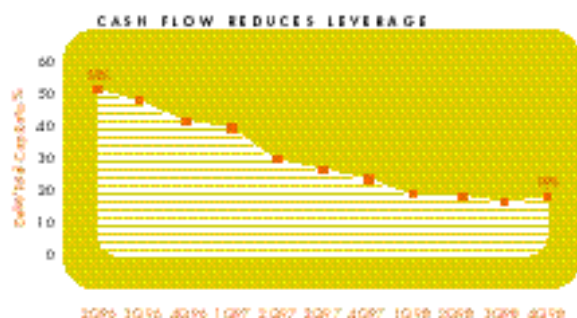
Significant rate adjustments were made on previously unprofitable accounts acquired from Massachusetts Mutual Life Insurance® Company and John Hancock Mutual Life Insurance Company®. The new proprietary networks in our strategic geographies resulted in lower costs and improved efficiency as we replaced third-party leased networks.

WellPoint made significant expenditures during 1998 to improve operations and position the Company for future growth. In California, investments in programs such as call center technology enhanced the speed and quality of information sharing between WellPoint, our employer groups and our members. A substantial amount of the spending to support our national expansion was dedicated to the integration of acquired businesses onto WellPoint's information systems platform.

Given the importance of information systems to our business, Year 2000 compliance issues were high on the list of our priority projects last year. In 1998, we completed the review of over 65 million lines of computer code, made appropriate renovations and internally tested the changes. We believe WellPoint is ready for the turn of the century.

Our business generates a significant amount of cash from continuing operations: \$395 million in 1998. This allows reinvestment in the business and continued improvement in our financial position. In 1998, for example, we paid down \$88 million in long-term debt, increased cash and investments by \$204 million, purchased \$193 million of WellPoint common stock for the pending Cerulean merger, and invested \$78 million in property and equipment, principally computer systems. This strong cash flow has reduced WellPoint's debt-to-total-capital

ratio from 52% in May 1996 to 19% by year-end 1998. This improved financial position provides WellPoint with the financial flexibility to take advantage of opportunities that may develop in the future.



#### KEY STRATEGIC ACTIONS

In 1998, we sold one of our specialty businesses—workers' compensation—enabling us to redeploy capital to our higher-yielding core health care operations. WellPoint entered the workers' compensation business in 1994 to offer customers an integrated product combining workers' compensation and medical coverage, primarily in the small group market. This product was successful, but 1996 regulatory changes in California contributed to losses in the stand-alone large group workers' compensation business during 1997 and

early 1998. After analyzing these developments, we ultimately concluded that profitable workers' compensation operations would, for WellPoint, yield a relatively low return on capital employed versus other more attractive core business investments.

As a result, we moved swiftly to dispose of our workers' compensation operations, completing the sale to Fremont Indemnity Company for over \$100 million within 45 days of our announcement to exit the business. WellPoint will continue to offer the successful integrated product to the small group market on a joint marketing basis with Fremont, including the opportunity to market medical products to Fremont's small group clients.

Another key strategic action for WellPoint during 1998 was the announcement of our planned \$500 million merger with Cerulean Companies, the parent of Blue Cross Blue Shield of Georgia and the leading health plan in the state of Georgia with over 30 percent market share.

Since the Recapitalization in May 1996, WellPoint has:

Paid down \$555 million in debt.

Increased cash and investments by \$877 million.

Reinvested \$166 million in property and equipment.

Georgia is an attractive growth market and one of several states that we have targeted for expansion. We see a number of favorable opportunities with this transaction, particularly in two areas in which WellPoint has strong track records: hybrid products and the individual/small group market.

Hybrid products, combining the best features of PPO and HMO plans, have generated significant sales for WellPoint in California. We believe these products will be very well received in the Georgia marketplace where there is a lower penetration of managed care. Our strategy will also be to use the skills we have developed in achieving the number one market position in the individual/small group segment in California to expand market penetration in that segment in Georgia.

Integration of Blue Cross Blue Shield of Georgia and WellPoint should be facilitated by similarities of the two companies, including organizations that emphasize customer segments and plan offerings that include similar “Blue-branded” products. We expect the transaction to close in the second half of 1999.

Another important action we took in 1998 was in response to the bankruptcy filing of a physician practice management company—FPA Medical Management. WellPoint received stock in FPA in connection with the stock-for-stock merger of Health Partners, in which we had an investment interest, with FPA in 1997. Pooling-of-interests accounting rules prevented us from selling our FPA holdings during much of the time that the stock of FPA and other physician practice management companies declined in the first quarter of 1998.



With the FPA bankruptcy, we recognized a charge of \$48.7 million in the second quarter of 1998 for the loss on our FPA stock.

From an operations perspective, we moved quickly to prevent any disruption of service to

most of our 50,000 members in California who had previously selected FPA doctors. We did this by assigning our members to other medical groups or independent physician associations within our network.

In the third quarter of 1998, WellPoint received a favorable tax ruling from the Internal Revenue Service. The ruling allows WellPoint to deduct a cash payment of \$800 million made by Blue Cross of California to a foundation in conjunction with WellPoint's Recapitalization in May 1996. The net tax benefit to WellPoint is \$280 million. We expect to receive a \$200 million refund from the IRS in the first half of 1999 and an additional tax benefit of about \$80 million through reduced quarterly tax payments during 1999.

#### WELL POSITIONED FOR STEADY GROWTH

The managed care industry consists of companies with very different strategies and methods of financing health care for members. We believe our focused approach to meeting customer needs sets us apart from the competition. Consider these differentiating factors:

**Broad product choice** WellPoint offers a full range of PPO, hybrid, Point-of-Service and HMO products. Approximately three-quarters of the Company's 6.9 million medical members are enrolled in open-access plans that offer maximum flexibility. These are the products most Americans value today.

**Focus on customer segment** Employer groups of different sizes have widely varying needs, as do individual purchasers and seniors. Our internal divisions are dedicated to meeting the unique needs of customers in each of these distinct market segments.

Because of our diversified business mix, a large percentage of our employer groups renew their coverage other than at the traditional January enrollment period. As a result, we can take timely pricing actions in a significant portion of our business when we see cost trends moving up.

## FOCUS ON CUSTOMER SEGMENTS

Segment	Size
Individual	1 person
Small Group	2–50 people
Major Accounts	51–5000 people
Special Accounts	5000+ people

**Strong brand value** The “Blue” service mark, licensed for use by WellPoint in California and in Georgia following completion of the Cerulean merger, is one of the strongest, most recognized brands in the nation.

Outside of California, we currently market our products under the emerging “UNICARE” brand, which is developing a reputation for innovative products.

**Pricing flexibility** Many managed care companies reprice a large percentage of their large group risk membership each January 1st. This hinders most companies from responding to changing cost trends until the next renewal period. WellPoint reprices only about 30 percent of its membership on January 1st, which gives us more opportunity to adjust product pricing during the year and respond quickly to changing cost trends. This flexibility is enhanced by a diverse customer base, a significant number of large group renewals spread throughout the calendar year and a sizable individual/small group business where prices can be changed with 60 days notice.

Targeted medical care management In any population group, a relatively small percentage of members will account for a substantial portion of health care services. Our actuarial analysis of this relationship helps us direct resources where they are needed and not to areas that unnecessarily encumber members who have minor medical needs or providers who want to improve efficiency. This focused medical care management allows WellPoint to achieve one of the lowest medical loss ratios in the industry.

#### LOOKING FORWARD

The future holds a great deal of opportunity for our industry and for WellPoint. The health care sector currently represents about 14 percent of the Gross Domestic Product in this country and there is no one dominant company providing financing for health care services. Health care's share of the GDP will likely increase from this level for several reasons.

First, the science base will continue to generate new technology, products and procedures that extend our life spans and enhance the quality of life.

Second, the impact on the health system of aging baby boomers will be enormous. The additional demand on the system from the sheer number of people in this generation will be significant. In addition, it is clear that baby boomers will expect more of the health care system and have the wealth to consume more services.

Third, and most important for WellPoint, consumers will be asked by their employers to bear a higher percentage of the cost of financing medical care. As a result, they will increasingly exercise their rights as consumers. They will compare and contrast products and services. They will actively participate in medical decisions and develop plans to finance future medical care. They will demand value. They will want choice. WellPoint is well positioned to help satisfy their needs.

While demand for innovative health plan products increases, consolidation in our industry will continue. We will participate in this trend but in a manner that fits our strategy.

It is an expansion strategy based on the strengths we have developed in the California marketplace. WellPoint is interested in developing a significant presence in targeted regions of the country. In these areas, we are interested in health plans that are generally less profitable and that require additional managed care product offerings to meet evolving customer needs on a profitable basis. We can add value to these plans. At the same time, we are growing our individual, small group and senior business from scratch in these targeted regions. The results have been impressive. In Texas, one of our targeted regions, WellPoint has grown the individual, small group and senior segment to over 100,000 members in just two years through customer-friendly PPO products.

Our success in 1998 and strong positioning for 1999 reflect the hard work of our associates and the leadership provided by our Board of Directors. I would particularly like to thank David Banks, who left our Board last year, for his dedicated service since 1993.

In the pages that follow, you will find outstanding examples of our dedicated team's commitment to delivering value to our members.

Growth opportunities in the managed care industry will continue to unfold, often in unpredictable ways. We expect WellPoint to prosper in the changing environment, taking advantage of our strong financial position, excellent staff and relentless focus on meeting customer needs.



Leonard D. Schaeffer  
*Chairman and Chief Executive Officer*

March 1999



WellPoint's

# EMPLOYEE ELECT

## MEDICAL GROUP FINDS VALUE IN CHOICE

In 1981, three physicians in Los Angeles came together to offer treatment services to individuals afflicted with a rare and unusual new disease. Calling themselves the Pacific Oaks Medical Group, the three physicians quickly found themselves at the forefront of a soon-to-be-named health crisis: AIDS. Since that time, Pacific Oaks has grown to a staff of 40, including 14 physicians, three registered nurses and a wide spectrum of medical assistants and practitioners offering comprehensive and compassionate health care services to individuals with AIDS and HIV.

The Pacific Oaks Medical Group boasts the country's largest private medical practice devoted to HIV. Its distinguished group of physicians includes the Chairman of the President's Advisory Council on HIV and AIDS. The group treats nearly 40,000 patients annually in its facility in Beverly Hills, providing not only primary and acute medical care but access to clinical research trials. From a group of three concerned professionals, Pacific Oaks has evolved into one of the most prestigious private medical practices in the United States.

For the group's administrators, this prestige brings unique challenges. Although considered a small business, Pacific Oaks competes with the nation's largest teaching and research facilities in employee recruitment. A challenging and rewarding professional environment is not only desired, it is absolutely critical. Attracting the best health care workers also requires a strong benefits program, with a variety of product and service options for health and financial well-being.

For the past 12 years, Pacific Oaks has been a WellPoint customer under the Blue Cross of California brand. With a dual option HMO/PPO benefit plan, the group was able to hold down costs while still offering its employees choice. But employees were becoming progressively more sophisticated about health insurance plans. Two health plans no longer were sufficient to meet everyone's needs, particularly those faced with lifestyle changes such as marriage, divorce and childbirth.

The solution to this problem arrived in the form of Blue Cross of California's Employee Elect program. Sales agent Barry Steinhardt first presented this new and innovative plan option to Pacific Oaks CFO Tom "Tucker" Goho, who immediately saw its potential as a recruitment vehicle for future employees and as a potential cost saver for the company. Tucker, impressed with the rate structure and access to nine different medical and four different dental plans, agreed to have Barry present to the group's Board of Directors. Approved unanimously, the two embarked on a series of employee meetings where the new plan options were greeted with tremendous enthusiasm.

Tucker credits Employee Elect with providing better self-determination for his employees in managing their own health care needs. Many of his employees elected PPO options with higher co-payments and broader access to physicians and hospitals. Others opted for more traditional HMO plans, thereby reducing their out-of-pocket expenditures. All employees, however, are now choosing the plan that is right for them and their families.

# ONE SIZE DOES NOT FIT ALL

The tangible benefits of Employee Elect have been obvious from the beginning. After several months, the intangible benefits are now becoming apparent. According to Tucker, Pacific Oaks employees have more confidence in the company's benefits and in the choices they make about their health.

Lydia Abrenica, of Pacific Oaks, selected an Employee Elect option that more closely met her specific needs.



As the lives of our customers enter new phases, WellPoint is there  
to generate security and confidence that changing  
health and financial needs will be accommodated.

#### FOCUS ON CHOICE

**F**ocus. The hallmark of any successful company. The top-line intangible that separates the best from the rest. Throughout this, the last decade of the century, business and industry have focused and refocused their priorities as customer demand has shifted. The managed health care sector has been no exception. This relatively young industry continues to offer models designed to improve the delivery and financing of health care. Throughout this evolution, WellPoint Health Networks has consistently maintained a position one step ahead of the competition due in no small part to the Company's relentless focus on the needs of its customers. Through its mission, its vision and its core values, WellPoint has delivered security and peace of mind to its members. With its focus on choice, value and affordability, WellPoint continues to lead the industry by developing products and services uniquely designed for a life-long relationship with our customers.

As the lives of our customers enter new phases, WellPoint is there to generate security and confidence that customers' changing health and financial needs will be accommodated.

#### A BROAD SPECTRUM OF PRODUCTS

**O**ur health plans are designed to meet a broad range of customer needs. From the country's largest multistate employers, to its smallest family-owned businesses, to individuals and retired seniors, WellPoint offers a health plan for every need. We offer a full spectrum of managed health care products including health maintenance organization (HMO) plans, point-of-service (POS) plans, preferred provider organization (PPO) plans and hybrid plans that combine the best features of all three. Additionally, we offer a wide range of specialty products, including prescription drug, dental, behavioral health, disability and life benefits as either stand-alone products or enhance-



ments of our medical products. For very large employers and state and local government entities, WellPoint provides administrative assistance in managing the health and financial requirements of multiple payers. Known as our management services accounts, these arrangements often provide WellPoint with an opportunity to introduce its fully insured product lines.

Our key products fall along a full continuum that members may select from based on coverage needs and affordability. The continuum spans from indemnity-like PPO plans to high-benefit HMO options. Higher-deductible PPOs, some designed to be combined with medical savings accounts (MSAs), allow those members with fewer health care needs greater control over their health care decisions. WellPoint's popular no-deductible PPO products, available in all our key markets, offer members the predictability of out-of-pocket costs usually associated with HMOs, while maintaining access to the broadest possible physician and hospital networks, the cornerstone of more traditional PPOs.

Moving further along the continuum, our lowest-cost HMO product is popular with price-sensitive consumers in California, because of a unique attribute—a hospital

deductible feature. Other HMO products offer traditional benefit designs, with primary care physicians from our broad provider network playing a more prominent role in health care decision-making. We also market HMO products that allow broader choice for members through their ability to self-refer to specialty physicians or to choose non-network physicians at a higher out-of-pocket cost.

WellPoint's focus on choice drives its continuous efforts to develop products that meet the needs of all of our customers. In 1998, this effort resulted in an innovative plan design aimed at our small business market in California. While our large business customers have always had the ability to custom-design plans based on employee needs, employees of small businesses have often been limited to the single plan selected by their employer. For Blue Cross of California small business subscribers, that scenario has changed.

The Employee Elect program enables small employers to offer each of their employees the freedom to choose from an unprecedented selection of medical and dental plans. With Employee Elect, employers have the option of allowing their employees to choose from nine different medical plans, including four no-deductible PPO plans, two high-deductible PPO plans that can be used with MSAs, and three HMO plans. This option, available to new groups upon enrollment, was also extended to our existing small business subscribers on their renewal dates. In just a few months of operation, nearly 600 small businesses have selected this product, representing over 4,000 members. In January 1999, over 200 new groups enrolled an additional 2,000 members. No other health plan in the state of California can boast of this level of choice available to its small business customers.

In 1998, another innovative approach to plan design, called PlanScape, was launched in Texas under the Company's UNICARE brand. PlanScape is a comprehensive new approach to health benefits that gives individuals more control over their health care. PlanScape is designed around the fact that different people have different health plan needs. A unique feature of PlanScape is that each member of an employee's family can select his or her own plan option according to specific needs and desires. PlanScape also enables members to elect a higher coverage plan at any time during the year, if health needs change. The product is designed to encourage use of network physicians and hospitals, but employees still have the freedom to choose any licensed provider.

PlanScape delivers value to members by empowering them to select a benefit plan most appropriate to their medical needs, financial situation and attitudes. To achieve this, UNICARE PlanScape uses an innovative tool, a personal needs assessment, to help members decide for themselves how best to select medical plans and navigate through the health care system.

PlanScape is ushering in the next generation of health care plans.

# BABY CONNECTION

## THE MIRACLE BABY Carol and Tom

Howard had been looking forward to this moment for a long time. Carol, previously married with an adult daughter, was eager to have a child with her new husband, Tom. It would be his first. In early May 1998, their dream was about to become reality. Carol's early pregnancy was unremarkable, but suddenly at 19 weeks she began to have difficulty. An amniocentesis that should have taken a few moments took several hours. Amniotic fluid began to leak, and by early July, Carol found herself in the hospital. Only 26 weeks pregnant, she gave birth to another daughter, Grace.

Weighing just over one and a half pounds, Grace immediately proved to be a fighter. Ventilator-dependent, with a less than six percent chance of survival, she quickly responded to the interventions of the hospital staff. A heart valve problem was surgically repaired. Retinopathy, an oxygen deprivation problem with Grace's eyes, was so advanced that permanent blindness appeared imminent. It was arrested and her sight saved. Within a short period of

time, Grace had doubled her weight.

Throughout this crisis, Cathy Warner, a nurse case manager from our new Baby Connection program, worked closely with the neonatal intensive care staff. As Grace progressed and her time of discharge approached, Cathy increased her activity, arranging for an extensive educational process for Carol and Tom, home health visits from a local registered nurse and early delivery of needed medical equipment. A distinct formula to aid in Grace's nutrition was swiftly approved. Special oxygen-delivery equipment to prevent further problems with her eyes was home, waiting for Grace's arrival. Cathy arranged for Synagis, a special preventive medication designed to ward off bronchitis or pneumonia—frequent complications for immune-compromised infants—to be administered at home by the home health nurse rather than at the pediatrician's office. This reduced Grace's chances of exposure to contagious disease.

In October, Grace was discharged from the hospital after 94 days in the intensive care unit. At home in Arroyo Grande, California, she is thriving. Weighing over 11 pounds, she is equipped with tiny eyeglasses, which have greatly improved her vision. She spends a good deal of time in a near-sterile room to prevent common infections and increase her immune system's strength.

# MIRACLE

## ARROYO IN GRANDE

Carol and Tom had a "miracle baby." They also had a strong advocate for their special needs in Cathy Warner of our Baby Connection program. The Howard family credits the program for making their lives easier in the midst of such overwhelming demands. Long a subscriber to one of the Company's PPO plans, Tom's faith in his health insurance proved correct. Carol looks at the controversy that surrounds managed health care and feels fortunate that the Baby Connection program was developed. She and Cathy are still in touch as the "miracle baby" grows. Grace is Carol and Tom's biggest success story. . . and also one of WellPoint's.

First-time father Tom Howard beams with pride.



WellPoint has focused its efforts on keeping its members healthy.

Managing health care means more than managing  
our members' expenditures. It also means partnering  
with our network doctors and hospitals,  
as well as others in the health care system.

#### THE BENEFITS OF MANAGED CARE

Debates over the future of our health care system are being conducted on America's Main Streets, in state capitols and in the halls of Congress. Often lost in these debates are the many positive attributes of the nation's current system of managed care. In addition to the development and marketing of health insurance coverage that will meet a broad array of members' needs, WellPoint has focused its efforts on keeping its members healthy. Managing health care means more than managing our members' expenditures. It also means partnering with our network doctors and hospitals, as well as others in the health care system. It means putting the promise of "care" back in managed care.

WellPoint's commitment to improving the health of our members has resulted in the development of health management programs designed to promote a higher quality of life for members with chronic ailments or who are otherwise medically at risk. These include monitoring, education and prevention programs for conditions such as congestive heart failure, asthma and diabetes.

In California, the Baby Connection program was developed to promote early and continuous prenatal care and education to our members most at risk. Starting with the diagnosis of pregnancy through delivery, the program is a collaborative process that promotes quality care and cost-effective outcomes to enhance the physical, psychosocial and vocational health of mothers and their infants—all at no additional cost to the member. The program focuses on reducing

the number of preterm deliveries, reducing both admissions and lengths of stay in neonatal intensive care units and providing comprehensive education and support for mothers at risk.

The Baby Connection program identifies high-risk members from a variety of sources. Traditional sources include direct calls from the member or physician or referrals from the Company's utilization management or enrollment representatives. Direct enrollment can now be done through the Blue Cross of California website on the Baby Connection webpage. Perhaps the most impressive identifier is a sophisticated database that each night checks physician and hospital claims relating to pregnancy, and once a month checks pharmacy codes for prenatal vitamin purchases.

Once the member is identified, she is encouraged to enroll in Baby Connection by completing a 15-question risk assessment questionnaire. Should the member answer "yes" to any high-risk-related questions, she is automatically assigned a prenatal case manager who is a professional nurse specializing in labor and delivery or neonatology. The nurse will assess the data and determine whether further case management is appropriate. If further management is essential, the nurse case manager begins to build a relationship with the member and her physician.

WellPoint also offers many specialty products to its members. One of these is behavioral health. A significant percentage of working Americans suffer from emotional problems, and others are directly or indirectly affected by alcohol and substance abuse. It is clear that employee behavioral health problems can result in decreased productivity and product quality.

Our Employee Assistance Program professionals  
have specialized training in workplace and family issues,  
as well as competencies in alcohol and drug abuse treatment.

WellPoint offers its employer customers managed behavioral health care services specifically designed to meet particular employer needs. These include licensed, experienced mental health professionals on call 24 hours a day, a nationwide network of mental health programs and practitioners, treatment planning and case management.

A key service offering is the Employee Assistance Program (EAP), which provides additional services for employees dealing with emotional problems, marital and family problems, alcohol or drug abuse and financial and legal difficulties. EAP professionals have specialized training in workplace and family issues, as well as

competencies in alcohol and drug abuse treatment. The program assists managers and supervisors in dealing with the personal problems of their employees in the workplace.

Elements of the EAP program include assessment and referral services, a nationwide network of dedicated professionals, management training and consultation and employee education services.

Behavioral health services also have proved to be popular with employer groups. Membership in behavioral health programs reached 744,000 by the end of 1998.



WellPoint's

# MANAGED CARE Services

**TURNING THE CORNER** For 35 years, Keith Paul worked as an electrician at Dow Chemical's Midland, Michigan plant. In the early 1980s, Keith, an otherwise healthy middle-aged man living in Bay City, was diagnosed with diabetes. While his doctor at the time prescribed appropriate medications, including insulin, Keith did not receive education on the appropriate lifestyle modifications required to maintain his health. Over time, Keith's diabetes did not stabilize, it worsened. In 1995, now married to his wife, Renee, a nursing assistant at the local hospital, Keith developed an infection on his foot, which rapidly spread to his ankle and leg, resulting in an amputation below the knee. Other problems soon followed, including heart bypass surgery and the threat of more infections. With most of their time devoted to his health problems, Keith and Renee quit their jobs determined to make things better.

As a member of a UNICARE-branded product, Keith was identified as a candidate for the Company's Disease State Management program in January 1998. As part of the enrollment process, one of the company's care managers, Jim Hinton, called Keith to introduce the program and determine his interest in participating. The two engaged in an informative discussion about the benefits of the program, which is offered at no cost to members. Keith expressed concern over his lack of knowledge about the disease and the threat of future infections. He agreed to participate. Working with Jim and his physician, Keith began a proactive process designed to enhance the long-term management of his condition.

During their initial discussion, Jim discovered that Keith had never had his HgbA1c level drawn. This test, used to determine a patient's blood glucose control over the previous three-month period, is a critical element in the management of diabetes.

Jim obtained Keith's permission to contact his physician and arrangements were made to have the test administered.

Keith's result was found to be 14, double the acceptable level. After consulting with his physician, Jim called Keith directly. It was time that Keith received broader instruction on his diabetes and how best it could be managed.

Among the suggested options was enrollment in a diabetes education class offered at the very hospital where Renee used to work. Keith chose this option and attended a week of classes. There he learned about self-testing techniques, medication administration and the impact of lifestyle habits on his overall health. As a result, Keith:

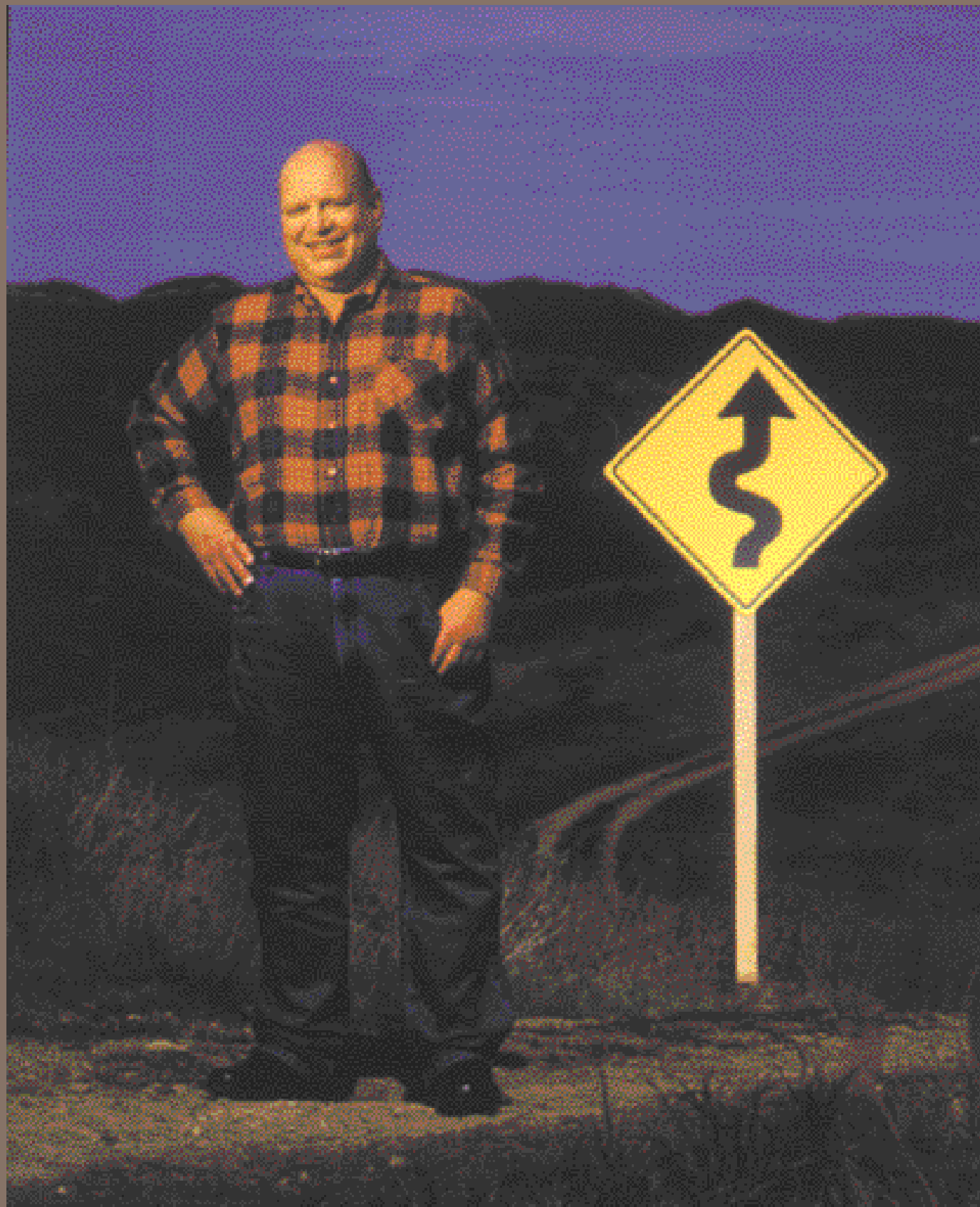
- increased his exercise level and awareness of his diet
- increased the number of blood glucose tests conducted at home
- worked closely with a physician dedicated to the long-term treatment of diabetes

Keith is still active in the program, in contact with Jim Hinton and continuing the lifestyle changes he began during the classes. These changes have allowed

# BACK ON TRACK

Keith to achieve excellent results in his health status. He has lost weight, lowered his blood pressure and reduced his cholesterol level. Renee has opened a day-care center in her home, and between them they are moving forward with their everyday lives, while maintaining a firm control over Keith's disease. Keith credits WellPoint's intervention with turning the corner. The caring intervention of Jim Hinton proved to be the right prescription for improving Keith's health and the well-being of his family.

After a bumpy ride, Keith Paul is back on track.



In today's competitive marketplace it is not enough  
to boast of a well-rounded product portfolio,  
if those products and services do not  
offer quality at affordable costs.

#### QUALITY & AFFORDABILITY

As WellPoint focuses on delivering a wide choice of product and service options for its members, so too does it focus on the quality and affordability of those options. In today's competitive marketplace it is not enough to boast of a well-rounded product portfolio, if those products and services do not offer quality at affordable costs.

In 1998, WellPoint excelled on two key measurable indicators of quality. The Company's California HMO, marketed under the Blue Cross of California brand name, was awarded a full three-year accreditation from the National Committee for Quality Assurance.

Accreditation is granted only to plans that have excellent programs for continuous quality improvement and meet rigorous standards. Over 50 standards covering six categories are evaluated. Among them are quality improvement, physician qualifications and evaluations, members' rights and responsibilities, preventive health services, utilization management and medical records.

The Utilization Review Accreditation Commission of the American Accreditation Healthcare Commission renewed its accreditation of the Company's managed care services business unit, Cost Care, Inc., which operates under the UNICARE brand name. This accreditation, an essential measure of organizational quality, reflects WellPoint's commitment to developing systems that focus on quality care management.

In addition to managing the health of our members through a wide variety of programs, we worked hard in 1998 to establish relationships with a growing network of physicians and hospitals. For example, our PPO network in California now includes 46,000 doctors and 440 hospitals. In Texas, our network has grown to 18,000 physicians and 261 hospitals. As 1999 progresses, networks in these and other geographies will continue to grow and evolve, allowing us even greater leverage in providing quality care at the most affordable prices.

One of the most challenging components of health care cost management is in the area of pharmaceuticals. As new and better drugs are created and approved, our pharmacy staff works quickly to incorporate the best treatments into the plan formularies, while seeking ways to make these new treatments affordable. Accordingly, we regularly review the prescription drug utilization trends of our members, our network physicians and our network pharmacists.

ReViewPoint is a systems-based utilization analysis and reporting system that allows us to track pharmacy claims, identify prescribing habits by drug or disease and generally monitor other trend-oriented information. Using simple desktop technology, ReViewPoint breaks out trends by employer group or size, geography, plan benefits or other subsets necessary for utilization and cost tracking. The reports generated can identify compliance with formulary prescriptions, use of generic drugs and other markers. Those providers falling outside standard-of-care guidelines are supplied with information regarding the appropriate use of medications.

Nationally, WellPoint's major accounts business—formed from the 1996 acquisition of the group benefit operations of Massachusetts Mutual Life Insurance Company—implemented a significant customer service initiative during 1998.

The benefits of managed care begin with the member.

Providing the appropriate care at the right time is the most effective way to achieve the best outcome.

Designed to meet the unique health plan needs of each of the business units' clients, the initiative merged teams of customer service and claims processing representatives into units designed to serve specific customers.

The program also lays the groundwork for future technological innovations, including optical character recognition technology that enables our claims processors to scan claims electronically and call tracking technology that displays a summary of a caller's prior customer service contacts. This improves our familiarity with our customers' needs and allows us to better anticipate their future ones. A recent audit of year-end claims processing shows these efforts have had a significant impact, with financial and administrative accuracy measurements meeting both corporate goals and customer expectations.

#### HELPING MEMBERS ACCESS CARE

Many of WellPoint's managed care service programs are designed not only to direct our members to the care they need but also to provide affordable options for staying healthy. Our disease management programs, which are founded on the belief that the key to successful management of chronic patients is early identification and proactive care management, target patients early and promote ongoing patient interaction.

Early identification of at-risk members is the key to disease management programs. Members with diabetes, asthma and a host of other chronic conditions are identified through a variety of means—surveys, medical and pharmacy claims data, inpatient admissions, emergency room visits, outpatient services, physician referrals, wellness programs and the Company's personal telephonic or Internet-accessible health risk assessment tools.

Direct member intervention often leads to better, more successful outcomes. Care managers contact members who could benefit from a disease management program. They assess members' knowledge of their condition, current treatment plan and circumstances at home or at work that could impact their health. Ongoing follow-up by personal care managers takes place and continuous education is provided to empower members to actively pursue a regimen of beneficial care.

In addition to personal contact between the member and care manager, the Company's disease management program employs a full-team approach. Personal physicians, pharmacists, care managers, ancillary providers and members all work together to coordinate the member's care.

WellPoint believes that managed care begins with the member. Providing the appropriate care at the right time, based upon identifying member needs, is the most effective way to achieve the best outcome.

Our disease management program has already produced improved outcomes, as demonstrated by the results of WellPoint's diabetes and asthma programs. By teaching members how to take an active role in their care, and through increased intervention by caregivers and care managers, the Company has helped members to control their diabetes and asthma and reduce the risk for condition-related complications.

WellPoint's focus on its customers has resulted in strong growth and financial performance. Our customer focus has also shaped the reputation we hold in the managed care industry.

As we enter the next millennium, WellPoint will continue its mission. Our efforts will aid in redefining health care for a new generation of Americans. By giving people true choice and putting them back in control of that most fundamental of all concerns, one's own health, we will continue to create value.

## Board of

# DIRECTORS



**LEONARD D. SCHAEFFER** has served as Chairman of the Board of Directors and Chief Executive Officer of WellPoint Health Networks Inc. since 1992. He also has served as Chairman of the Board of Directors since 1989 and Chief

Executive Officer of Blue Cross of California since 1986. Previously he served as President of Group Health, Inc., an HMO in the midwestern U.S.; Executive Vice President and Chief Operating Officer of the Student Loan Marketing Association; and Administrator of the Federal Health Care Financing Administration (HCFA). Mr. Schaeffer also serves as Chairman of the Board of the National Health Foundation, the National Institute for Health Care Management and the Health Insurance Association of America.



**W. TOLIVER BESSON** has served as a Director of WellPoint since May 1996 and is a Member of the Audit Committee and Nominating & Governance Committee. He is a partner at the law firm of Paul, Hastings,

Janofsky & Walker and also serves as a Member of the Management Committee of Cross Country Ventures. He also has served as a Director of Blue Cross of California, and as a Member of the Board of Governors of the California State Bar.



**ROGER E. BIRK** has served as a Director of WellPoint since April 1993 and is the Chairperson of the Audit Committee. He has previously served as President of the Federal National Mortgage

Association, and as Chairman and Chief Executive Officer of Merrill Lynch, Pierce, Fenner & Smith Incorporated. He also currently serves as a Director of Penske Transportation, Federal National Mortgage Association, Mutual of America Capital Corp. and Golden Bear Golf, Inc.



**SHEILA P. BURKE** has served as a Director of WellPoint since April 1997 and is a Member of the Audit Committee. She is Executive Dean of the John F. Kennedy School of Government, Harvard University, and also currently serves as

a Director on the Board of Chubb Corp. and as a Trustee of the Boards of Marymount University and the University of San Francisco. She has previously served as a senior advisor to the Dole for President Campaign and Chief of Staff for the Office of the Republican Leader of the United States Senate.



**STEPHEN L. DAVENPORT** has served as a Director of WellPoint since May 1996 and is the Chairperson of the Compensation Committee. He has previously served as a Director of Blue Cross of California, President of D/A

Financial Group and a Senior Vice President of Provident Mutual Life Insurance Company.



**JULIE A. HILL** has served as a Director of WellPoint since March 1994 and is the Chairperson of the Nominating & Governance Committee and a Member of the Compensation Committee. She is a Partner with Hiram-Hill Development, a real estate development firm.



**ELIZABETH A. SANDERS** has served as a Director of WellPoint since May 1996 and is a Member of the Audit Committee. She is Principal of the Sanders Partnership, a consultant to executive management, a writer

and a speaker, and currently also serves as a Director of Washington Mutual, Inc., Wal-Mart Stores Inc., Wolverine Worldwide, Inc. and the Advantica Restaurant Group, Inc. She previously served as Corporate Vice President, Nordstrom, Inc. and was a Founder and Director of the National Bank of Southern California.



## REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors  
WellPoint Health Networks Inc.

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of WellPoint Health Networks Inc. as of December 31, 1998 and 1997 and the related consolidated income statements and consolidated statements of stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998, appearing in the proxy statement for the 1999 annual meeting of stockholders of the corporation (not presented herein). In our report dated February 11, 1999, also appearing in that proxy statement, we expressed an unqualified opinion on those consolidated financial statements as being fairly presented, in all material respects, in conformity with generally accepted accounting principles. In our opinion, the information set forth in the accompanying supplemental condensed consolidated financial statements is fairly presented, in all material respects, in relation to the consolidated financial statements from which it has been derived.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Los Angeles, California

February 11, 1999

## RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Stockholders of  
WellPoint Health Networks Inc.

The Company's management is responsible for the integrity and objectivity of the financial information contained in this annual report.

Management maintains and is responsible for systems of internal accounting controls to provide reasonable assurance of the integrity and reliability of the financial statements, safeguarding of assets and that transactions are executed in accordance with management's authorization and are accurately reflected in the books and records of the Company. The Company maintains an extensive internal auditing program that independently assesses the effectiveness of these internal controls with written reports and recommendations issued to the appropriate levels of management. Management believes that the existing systems of internal controls are achieving the objectives discussed herein.

WellPoint's Audit Committee of the Board of Directors is responsible for reviewing the Company's financial reporting, accounting and internal control practices and recommending the selection of independent auditors. The Company's internal and independent auditors have full and free access to the Audit Committee and meet with it to discuss all appropriate matters.

S. Louise McCrary  
*Senior Vice President,  
Controller & Chief Accounting Officer  
WellPoint Health Networks Inc.*

February 11, 1999

**SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

December 31,

	1998	1997
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 410,875	\$ 269,067
Investment securities, at market value	2,250,174	2,188,651
Receivables, net	485,259	502,880
Deferred tax assets	121,881	68,279
Income taxes recoverable	95,902	—
Other current assets	70,349	50,262
<b>Total Current Assets</b>	<b>3,434,440</b>	<b>3,079,139</b>
Property and equipment, net	131,459	112,526
Intangible assets, net	93,937	295,680
Goodwill, net	336,155	325,067
Long-term investments, at market value	103,253	102,819
Deferred tax assets	79,976	61,078
Other non-current assets	46,614	48,592
<b>Total Non-Current Assets</b>	<b>791,394</b>	<b>945,762</b>
Net assets of discontinued operations held for sale	—	209,223
<b>Total Assets</b>	<b>\$4,225,834</b>	<b>\$4,234,124</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Medical claims payable	\$ 946,502	\$ 922,658
Reserves for future policy benefits	55,024	51,189
Unearned premiums	215,058	196,205
Accounts payable and accrued expenses	342,713	347,316
Experience rated and other refunds	249,685	255,495
Income taxes payable	—	105,052
Other current liabilities	373,882	302,032
<b>Total Current Liabilities</b>	<b>2,182,864</b>	<b>2,179,947</b>
Accrued postretirement benefits	67,058	63,891
Reserves for future policy benefits, non-current	319,056	332,033
Long-term debt	300,000	388,000
Other non-current liabilities	41,633	47,084
<b>Total Liabilities</b>	<b>2,910,611</b>	<b>3,010,955</b>
Stockholders' Equity:		
Preferred stock	—	—
Common stock	706	698
Treasury stock	(193,435)	(103)
Additional paid-in capital	921,747	882,312
Retained earnings	576,598	345,318
Accumulated other comprehensive income	9,607	(5,056)
<b>Total Stockholders' Equity</b>	<b>1,315,223</b>	<b>1,223,169</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$4,225,834</b>	<b>\$4,234,124</b>

Note: Prior year financial information has been restated to include the workers' compensation business as a discontinued operation.

**SUPPLEMENTAL CONDENSED CONSOLIDATED INCOME STATEMENTS**

(In thousands, except earnings per share)

	Year Ended December 31,		
	1998	1997	1996
<b>Revenues:</b>			
Premium revenue	\$5,934,812	\$5,068,947	\$3,699,337
Management services revenue	433,960	377,138	147,911
Investment income	109,578	196,153	123,584
	6,478,350	5,642,238	3,970,832
<b>Operating Expenses:</b>			
Health care services and other benefits	4,776,345	4,087,420	2,825,914
Selling expense	280,078	249,389	202,318
General and administrative expense	975,099	836,581	543,541
Nonrecurring costs	—	14,535	—
	6,031,522	5,187,925	3,571,773
<b>Operating Income</b>	<b>446,828</b>	<b>454,313</b>	<b>399,059</b>
Interest expense	26,903	36,658	36,628
Other expense, net	27,939	31,301	25,195
<b>Income from Continuing Operations before</b>			
Provision for Income Taxes	391,986	386,354	337,236
Provision for income taxes	72,438	156,917	138,718
<b>Income from Continuing Operations</b>	<b>319,548</b>	<b>229,437</b>	<b>198,518</b>
<b>Discontinued Operations:</b>			
Income (loss) from Workers' Compensation Segment	(12,592)	(2,028)	3,484
Loss on disposal of Workers' Compensation Segment	(75,676)	—	—
<b>Income (Loss) from Discontinued Operations</b>	<b>(88,268)</b>	<b>(2,028)</b>	<b>3,484</b>
<b>Net Income</b>	<b>\$ 231,280</b>	<b>\$ 227,409</b>	<b>\$ 202,002</b>
<b>Earnings Per Share:</b>			
Income from continuing operations	\$ 4.63	\$ 3.33	\$ 2.99
Income (loss) from discontinued operations	(1.28)	(0.03)	0.05
<b>Net income</b>	<b>\$ 3.35</b>	<b>\$ 3.30</b>	<b>\$ 3.04</b>
<b>Earnings Per Share Assuming Full Dilution:</b>			
Income from continuing operations	\$ 4.55	\$ 3.30	\$ 2.99
Income (loss) from discontinued operations	(1.26)	(0.03)	0.05
<b>Net income</b>	<b>\$ 3.29</b>	<b>\$ 3.27</b>	<b>\$ 3.04</b>

Note: Prior year financial information has been restated to include the workers' compensation business as a discontinued operation.

**SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(In thousands)

	Preferred Stock	Common Stock		In Treasury Amount
		Shares	Amount	
Balance as of January 1, 1996	\$ —	—	\$ —	\$ —
Recapitalization				
Dividends				
Share exchange		66,367	664	
Stock grants to employees and directors		117	1	
Stock issued for employee stock purchase plan		43		
Comprehensive income				
Net income				
Other comprehensive income, net of tax				
Change in unrealized valuation adjustment on investment securities, net of reclassification adjustment				
<b>Total comprehensive income</b>				
Balance as of December 31, 1996	—	66,527	665	—
Net proceeds from common stock offering		3,000	30	
Stock grants to employees and directors		6		
Stock issued for employee stock option and stock purchase plans		245	3	
Stock repurchased, at cost				(103)
Comprehensive income				
Net income				
Other comprehensive income, net of tax				
Change in unrealized valuation adjustment on investment securities, net of reclassification adjustment				
<b>Total comprehensive income</b>				
Balance as of December 31, 1997	—	69,778	698	(103)
Stock grants to directors		6		
Stock issued for employee stock option and stock purchase plans		837	8	
Stock repurchased, at cost				(193,332)
Comprehensive income				
Net income				
Other comprehensive income, net of tax				
Change in unrealized valuation adjustment on investment securities, net of reclassification adjustment				
<b>Total comprehensive income</b>				
Balance as of December 31, 1998	\$ —	70,621	\$ 706	\$ (193,435)

Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Shares	Amount	Shares	Amount				
19,500	\$ 195	80,000	\$ 800	\$ 1,100,288	\$ 567,123	\$ 1,820	\$ 1,670,226
				(343,784)	(651,216)		(995,000)
(19,500)	(195)	(80,000)	(800)	331			–
				4,082			4,083
				962			962
					202,002		202,002
						(11,814)	(11,814)
					202,002	(11,814)	190,188
–	–	–	–	761,879	117,909	(9,994)	870,459
				110,310			110,340
				270			270
				9,853			9,856
							(103)
					227,409		227,409
						4,938	4,938
					227,409	4,938	232,347
–	–	–	–	882,312	345,318	(5,056)	1,223,169
				399			399
				39,036			39,044
							(193,332)
					231,280		231,280
						14,663	14,663
					231,280	14,663	245,943
–	\$ –	–	\$ –	\$ 921,747	\$ 576,598	\$ 9,607	\$ 1,315,223

**SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

Year Ended December 31,

	1998	1997	1996
Cash flows from operating activities:			
Income from continuing operations	\$ 319,548	\$ 229,437	\$ 198,518
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:			
Depreciation and amortization, net of accretion	54,590	51,239	31,971
(Gains) losses on sales of assets, net	34,679	(59,168)	(16,270)
Provision (benefit) for deferred income taxes	(83,261)	20,699	(21,261)
Amortization of deferred gain on sale of building	(4,425)	(4,426)	(2,582)
(Increase) decrease in certain assets, net of acquisitions:			
Receivables, net	17,621	(11,315)	19,053
Other current assets	(4,988)	(30,536)	46,119
Other non-current assets	1,978	1,719	(47,552)
Increase (decrease) in certain liabilities, net of acquisitions:			
Medical claims payable	23,844	170,728	(9,585)
Reserves for future policy benefits	(9,142)	407	(492)
Unearned premiums	18,853	14,072	24,113
Accounts payable and accrued expenses	(6,415)	102,662	68,563
Experience rated and other refunds	(5,810)	17,726	12,029
Other current liabilities	35,398	3,745	52,480
Accrued postretirement benefits	3,167	2,805	(1,600)
Other non-current liabilities	(1,027)	(13,698)	3,795
Net cash provided by continuing operating activities	394,610	496,096	357,299
Income (loss) from discontinued operations	(12,592)	(2,028)	3,484
Adjustment to derive cash flows from discontinued operating activities:			
Change in net operating assets	7,410	59,012	43,806
Net cash provided by (used in) discontinued operating activities	(5,182)	56,984	47,290
Net cash provided by operating activities	389,428	553,080	404,589
Cash flows from investing activities:			
Investments purchased	(2,843,102)	(2,641,752)	(1,089,838)
Proceeds from investments sold	2,666,355	1,836,541	812,402
Proceeds from investments matured	106,436	143,218	75,018
Property and equipment purchased	(78,431)	(58,619)	(44,150)
Proceeds from property and equipment sold	25,721	503	291
Proceeds from sale of workers' compensation business	101,413	—	—
Additional investment in subsidiaries	—	(18,317)	—
Purchase of subsidiaries, net of cash acquired	—	361,977	(453,068)
Net cash used in continuing investing activities	(21,608)	(376,449)	(699,345)
Net cash provided by (used in) discontinued investing activities	15,877	(76,149)	(36,892)
Net cash used in investing activities	(5,731)	(452,598)	(736,237)
Cash flows from financing activities:			
Proceeds from long-term debt	—	150,000	825,000
Repayment of long-term debt	(88,000)	(387,000)	(262,000)
Net proceeds from common stock offering	—	110,340	—
Proceeds from the issuance of common stock	39,443	10,126	962
Common stock repurchased	(193,332)	(103)	—
Dividends paid in connection with the Recapitalization	—	—	(995,000)
Net cash used in financing activities	(241,889)	(116,637)	(431,038)
Net increase (decrease) in cash and cash equivalents	141,808	(16,155)	(762,686)
Cash and cash equivalents at beginning of year	269,067	285,222	1,047,908
Cash and cash equivalents at end of year	\$ 410,875	\$ 269,067	\$ 285,222

Note: Prior year financial information has been restated to include the workers' compensation business as a discontinued operation.

#### EXECUTIVE OFFICERS

**Leonard D. Schaeffer**  
*Chairman and  
Chief Executive Officer*

**Joan E. Herman**  
*Executive Vice President,  
Senior and Specialty Businesses*

**D. Mark Weinberg**  
*Executive Vice President,  
Individual and Small  
Group Businesses*

**Ronald A. Williams**  
*Executive Vice President,  
Large Group Businesses*

**David C. Colby**  
*Executive Vice President,  
Chief Financial Officer*

**Clifton R. Gaus**  
*Executive Vice President,  
Chief Administrative Officer*

**Thomas C. Geiser**  
*Executive Vice President,  
General Counsel*

#### DIRECTORS

**W. Toliver Besson, Esq.**  
*Partner  
Paul, Hastings, Janofsky & Walker*

**Roger E. Birk**  
*Former Chairman and  
Chief Executive Officer  
Merrill Lynch, Pierce,  
Fenner & Smith Incorporated*

**Sheila P. Burke**  
*Executive Dean  
John F. Kennedy  
School of Government,  
Harvard University*

**Stephen L. Davenport**  
*Former President  
D/A Financial Group*

**Julie A. Hill**  
*Partner  
Hiram-Hill Development*

**Elizabeth A. Sanders**  
*Principal  
The Sanders Partnership*

**Leonard D. Schaeffer**  
*Chairman and  
Chief Executive Officer  
WellPoint Health Networks Inc.*

#### CORPORATE DATA

Corporate Headquarters  
**One WellPoint Way  
Thousand Oaks, CA 91360**

Independent Public Accountants  
**PricewaterhouseCoopers LLP  
Los Angeles, CA 90071**

Corporate Counsel  
**Gibson, Dunn & Crutcher, L.L.P.  
San Francisco, CA 94105**

Transfer Agent & Registrar  
**ChaseMellon Shareholder  
Services L.L.C.  
Overpeck Centre  
85 Challenger Road  
Ridgefield Park, NJ 07660  
www.chasemellon.com**

Investor Contact  
**John Cygul  
Vice President,  
Investor and Corporate  
Communications  
(805) 557-6789  
www.wellpoint.com**

Form 10-K Report

**Stockholders may receive without  
charge a copy of the WellPoint  
Health Networks Inc. Annual  
Report on Form 10-K as filed with  
the Securities and Exchange  
Commission by contacting investor  
relations at the Company's corpo-  
rate headquarters.**

Stock Listing

**Common Stock of WellPoint  
Health Networks Inc. trades on  
the New York Stock Exchange  
under the symbol WLP.**

Cautionary Statement: Certain statements contained in this annual report are forward-looking statements. Actual results could differ materially due to, among other things, operational and other difficulties associated with integrating acquired businesses, rising health care costs and other trends affecting medical loss ratios, health care reform and other regulatory issues, difficulties in obtaining regulatory approvals of pending transactions, competition among managed care companies and general business conditions. Additional risk factors are listed from time to time in the Company's various reports filed with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

Blue Cross of California, WellPoint Health Networks Inc. and Blue Cross Blue Shield of Georgia are Independent Licensees of the Blue Cross Association

® is a Registered Mark and sm™ is a Service Mark of WellPoint Health Networks Inc.

® is a Registered Mark of Massachusetts Mutual Life Insurance Company

® is a Registered Mark of John Hancock Mutual Life Insurance Company

UNICARE plans are provided by various entities including UNICARE Life & Health Insurance Company and UNICARE of Texas Health Plans, Inc.



WellPoint Health Networks Inc.  
One WellPoint Way  
Thousand Oaks, CA 91360  
[www.wellpoint.com](http://www.wellpoint.com)